Detroit Regional Convention Facility Authority
One Washington Blvd., Detroit, MI 48226 313.877.8111

Memo

To: Bret Marr

From: Patrick Bero, CEO/CFO DRCFA

Date: November 29, 2017

Re: House Bill 5134 Concerns

House Bill 5134 proposes diverting One Million Nine Hundred Thousand Dollars ($1,900,000.00) per year from fiscal year 2017-2018 to 2026-2027 from the Convention Facility Development Fund ("CFDF") to the Northern Michigan Regional Tourism and Sports Fund. The Detroit Regional Convention Facility Authority ("DRCFA") is deeply concerned with the provisions of this legislation and the potential negative impacts it could have on state taxpayers and the DRCFA's ability to procure funding in the municipal finance market at favorable rates. These concerns include but are by no means limited to:

- **Increased Market Risk:** Funds from the CFDF are pledged to service debt issued in the public municipal bond markets for capital improvements and to provide for a limited term operating subsidy for Cobo Center in Detroit on behalf of the state's taxpayers who are now responsible operation and upkeep of the facility through the regional authority. Any attempt to divert funds away from the CFDF for something other than the original intended use could be perceived by the capital markets as impairment to the security for the bonds, thereby increasing the bonds' risk, reducing the value of the issue, and increasing future capital costs for the state's taxpayers.
- **Reduced Returns to All Counties throughout the State:** In exchange for the contribution of their liquor tax proceeds to the CFDF as security for any future bond offering in support of Cobo Center, the counties were promised a return of their liquor taxes plus a premium. Any diversion of funds from the CFDF for purposes other than those outlined in PA106 would reduce promised returns to all counties throughout the state.
- **Increased Debt Service Costs for State Taxpayers:** Any funds remaining in the CFDF after money has been returned to the counties are designated to a debt service reserve account that is to be used for the early retirement of debt. Under the existing bond issue $23,500,000 of the total $295,350,000 are taxable instruments for which the state's taxpayers pay a higher rate of interest. Market demand for this portion of the issue was not strong resulting in buyers acquiring the bonds at a market discount. At the time of issue, bond holders were told that the debt service reserve would be used to retire the taxable bonds early. By definition, any diversion of funds away from the CFDF for purposes other than those outlined in PA 106 results in the taxable portion of the current bond issue being outstanding for a longer period of time

which is contrary to what bond holders understood when they originally bought the issue. This will further decrease the value of the bonds, increase debt service costs for the state's taxpayers and increase the perceived risk and corresponding borrowing costs for the state's taxpayers on future debt issues by the DRCFA.

- **Cannot Impair Existing Bond Issues:** State law that prohibits state government from taking action that would impair existing financial obligations of the state. Diverting funds from the CFDF for a purpose other than those outlined in PA 106 is an impairment of the existing DRCFA bonds which were issued under the Michigan Finance Authority.
- **Debt Service Covenants:** Under the terms of the bond agreements, the CFDF must maintain covenants of 2.5 x maximum annual debt service ("MADS") for all CFDF revenue and 1.25 x MADS for liquor tax revenue only. Dilution of the fund would negatively impact the coverage ratios.
- **Negative Impact of DRCFA Mission:** Any diversion of funds from the CFDF for purposes other than what is outlined in PA 106 hinders the ability of the DRCFA to fulfill its mission to maintain Cobo Center's competitive position in the marketplace and maximize economic impact.

For these reasons, the DRCFA opposes this legislation.

Background

The current funding formula for the convention facility development fund consists of three items:

- The Hotel Accommodations tax for Oakland, Macomb, and Wayne Counties;
- The statewide liquor tax;
- And a $16 MM distribution from the health and safety fund, which declines to $15mm in 2015-2039 (this component was added in 2009)

The distribution priority of proceeds from the convention fund is as follows:

- Debt service;
- Cobo Center operating subsidy;
- Reimbursement of out-county liquor tax contributions to the convention fund + a premium
- Debt reserve for the early retirement of the bonds

Since assuming responsibility for Cobo Center in September, 2009 the DRCFA has a demonstrated record of success working on behalf of the taxpayers. The list of accomplishments includes but is by no means limited to:

- Completed the $279 million renovation of Cobo center on time and on budget while keeping the facility open and fully operational.
- 85% of all capital expenditures went to Michigan based companies.
- Returned over $22.1 million dollars to all counties throughout the state as a result of the defeasance of the 2003 bond issue which the DRCFA assumed from the City of Detroit.
- Saved state taxpayers an estimated $30 million in construction financing costs using a combination of private placement loans and municipal bond issues through the Michigan Finance Authority (MFA).

- Partnering with the MFA and underwriters at J.P. Morgan Chase, the DRCFA effectively marketed its long-term bond offering in the municipal marketplace (during the time of the City of Detroit bankruptcy) resulting in demand being more than three times the size of the offering and generating a premium of approximately $36 million for state taxpayers.
- In partnership with MIOSHA, our contractors, and our skilled trades professionals the DRCFA established a world class construction safety program that protected both workers and patrons which saved the state's taxpayers an estimated $2.5 million in insurance costs.
- Reduced annual operating expenses by 31.4% while absorbing overhead administrative functions such as finance, accounting, HR, risk management, legal, and public relations that were previously performed by other departments of the City of Detroit Administration.
- Increased operating revenue by nearly 360% from $3.6 million in 2009 to $12.922 million in 2016.
- Reduced the annual operating loss from over $21 million to $2.8 million with other initiatives to further close the gap in progress.
- Became the model for regional cooperation, governance, public project construction and finance.

Please let me know if you have any further questions or if you require any additional information.

Macomb County Executive
Mark A. Hackel

Mark F. Deldin
Deputy County Executive

October 17, 2017

Michigan State Senate
PO Box 30036
Lansing, MI 48909-7536

Dear Senator,

I am writing to express my opposition to Senate Bill 0523. The bill proposes to divert $1.9 million a year (from fiscal year 2017-2018 through fiscal year 2026-2027) from the Convention Facility Development Fund (CFDF) to a newly created Northern Michigan Regional Tourism and Sports Fund.

As a stakeholder in the Detroit Regional Convention Facility Authority (DRCFA), Macomb County is deeply concerned with the provisions of this legislation and the potential negative impact it could have on state taxpayers and the DRCFA's ability to procure funding in the municipal finance market at favorable rates. These concerns include but are not limited to:

• Any attempt to divert funds away from the CFDF for something other than the original intended use could be perceived by the capital markets as impairment to the security for the bonds. This diversion would increase the bonds' risk, reduce the value of the issue, and increase future capital costs for Michigan taxpayers.

• Any diversion of funds from the CFDF for purposes other than those outlined in Public Act (PA) 106 could reduce promised returns to all counties throughout the state. It will impair the existing DRCFA bonds, and hinder the ability of the DRCFA to fulfill its mission to maintain Cobo Center's competitive position in the marketplace and maximize economic impact.

Macomb County is concerned that this bill will establish a precedent of using CFDF funds for purposes other than what is intended under PA 106 and will result in an exacerbation of the negative impacts outlined above. Therefore Macomb County objects to the legislation.

Regards,

Mark A. Hackel
Macomb County Executive

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Warren C. Evans
Wayne County Executive

September 28, 2017

Michigan State Senate
PO Box 30036
Lansing, MI 48909-7536

Dear Senator,

I am writing to express my opposition to Senate Bill 0523. The bill proposes diverting One Million Nine Hundred Thousand Dollars ($1,900,000.00) per year from fiscal year 2017-2018 to 2026-2027 from the Convention Facility Development Fund ("CFDF") to a newly created Northern Michigan Regional Tourism and Sports Fund. As a stakeholder in the Detroit Regional Convention Facility Authority ("DRCFA"), I am deeply concerned with the provisions of this legislation and the potential negative impacts it could have on state taxpayers and the DRCFA's ability to procure funding in the municipal finance market at favorable rates. These concerns include but are by no means limited to:

- **Increased Market Risk:** Any attempt to divert funds away from the CFDF for something other than the original intended use could be perceived by the capital markets as impairment to the security for the bonds, thereby increasing the bonds' risk, reducing the value of the issue, and increasing future capital costs for the state's taxpayers.
- **Reduced Returns to All Counties throughout the State:** Any diversion of funds from the CFDF for purposes other than those outlined in PA106 could reduce promised returns to all counties throughout the state.
- **Increased Debt Service Costs for State Taxpayers:** Any diversion of funds away from the CFDF for purposes other than those outlined in PA 106 results in the taxable portion of the current bond issue being outstanding for a longer period of time thereby, increasing debt service costs for the state's taxpayers.
- **Cannot Impair Existing Bond Issues:** Diverting funds from the CFDF for a purpose other than those outlined in PA 106 is an impairment of the existing DRCFA bonds which were issued under the Michigan Finance Authority.
- **Debt Service Covenants:** Dilution of the fund would negatively impact the coverage ratios.
- **Negative Impact of DRCFA Mission:** Any diversion of funds from the CFDF for purposes other than what is outlined in PA 106 hinders the ability of the DRCFA to fulfill its mission to maintain Cobo Center's competitive position in the marketplace and maximize economic impact.
- **Precedent:** Diverting funds from the CFDF will establish a precedent of using CFDF funds for purposes other than what is intended under PA 106 and will result in an exacerbation of the negative impacts outlined above.

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For these reasons, I oppose Senate Bill 0523 to the legislation.

Sincerely,

Warren C. Evans
Wayne County Executive

OAKLAND COUNTY MICHIGAN L. BROOKS PATTERSON, OAKLAND COUNTY EXECUTIVE

October 4, 2017

Dear Senator,

I am writing to express my opposition to Senate Bill 0523, which proposes to divert $1.9 million a year (through fiscal year 2026-2027) from the Convention Facility Development Fund (CFDF) to a newly created Northern Michigan Regional Tourism and Sports Fund.

As a stakeholder in the Detroit Regional Convention Facility Authority (DRCFA), Oakland County is deeply concerned with the provisions of this legislation and the potential negative impact it could have on state taxpayers and the DRCFA's ability to procure funding in the municipal finance market at favorable rates. These concerns include but are not limited to:

- Any attempt to divert funds away from the CFDF for something other than the original intended use could be perceived by the capital markets as impairment to the security for the bonds, thereby increasing the bonds' risk, reducing the value of the issue, and increasing future capital costs for Michigan taxpayers.

- Any diversion of funds from the CFDF for purposes other than those outlined in Public Act (PA) 106
    - could reduce promised returns to all counties throughout the state
    - will result in the taxable portion of the current bond issue being outstanding for a longer period of time thereby increasing debt service costs for Michigan taxpayers
    - will impair the existing DRCFA bonds which were issued under the Michigan Finance Authority
    - and will hinder the ability of the DRCFA to fulfill its mission to maintain Cobo Center's competitive position in the marketplace and maximize economic impact

Plus, it will establish a precedent of using CFDF funds for purposes other than what is intended under PA 106 and will result in an exacerbation of the negative impacts outlined above. For these reasons, Oakland County objects to the legislation.

Sincerely,

L. Brooks Patterson
Oakland County

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J.P.Morgan

November 2, 2017

Patrick Bero, CEO and CFO
Detroit Regional Convention Facility Authority
1 Washington Blvd, Suite 401
Detroit, MI 48226
(313) 877-8777

Dear Pat,

In response to your question regarding the potential effects of the current proposal (the "Proposal") to divert funds from the Convention Facility Development Fund (the "CFDF"), I offer the following analysis as it strictly relates to the potential concerns existing Detroit Regional Convention Facility Authority ("DRCFA") bondholders and credit rating agencies may have.

A diversion of any dollars from the CFDF will dilute DRCFA's debt service coverage and also the ultimate residual distributions back to the Counties within the State. Given that the Proposal calls for a de minimis diversion of funds, the effects on both of these should be negligible from a credit perspective, and the rating agencies are not likely to respond in any way. If the dollar amount were larger and dilution was greater, a different fact pattern would likely emerge, and a rating agency response (including possible rating downgrades) would be more likely.

However, a use of CFDF dollars for other than what is already statutorily prescribed may be seen as establishing a precedent that would be viewed negatively by rating agencies and potential investors. Diverting monies from the CFDF would raise the following questions: (i) what is the potential for other projects to siphon off funds from the CFDF in the future (resulting in diluted debt service coverage for holders of outstanding DRCFA bonds), (ii) what priority of payment would they have vs. DRCFA's existing waterfall of funds, and (iii) what is the legislature's long-term view on ensuring reasonable levels of debt service coverage for DRCFA?

Introducing uncertainty in the eyes of investors and/or credit rating agencies can result in increased scrutiny on DRCFA as a whole, its specific credit pledged to bondholders, and on the political landscape affecting both. If a negative action is taken by the rating agencies and/or the overall municipal market believes DRCFA's credit has been diminished, existing bondholders will likely be affected, in the form of a lower market-based valuation for the DRCFA bonds they hold.

Please let me know if you have any questions. Thanks,

TJ Whitehouse

TJ Whitehouse, Executive Director
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